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C O N F I D E N T I A L SECTION 01 OF 02 TEGUCIGALPA 002347

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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [SOCI](#) [HO](#)  
SUBJECT: WHY ENFORCE ANTI-TRUST LAWS WHEN PRICE FIXING IS  
POLITICALLY EXPEDIENT?

Classified By: Ambassador Charles Ford for reasons 1.4 (b) and (d)

¶1. (U) Summary. Over the past year the Honduran press has reported frequently on increasing prices of basic goods, including corn flour, sugar, rice, meat, eggs, and even cement. Rallied by local leftist political parties and an active press campaign, the Honduran people have clamored for government intervention to reduce prices. Market distortions, such as monopolies and oligopolies of key products, make resolving price disputes fractious at best. The Honduran political class prefers to make &gentlemen,s agreements<sup>8</sup> with producers ) brokered by the Honduran Council of Private Enterprises (COHEP) - to postpone or reduce price increases. The Competition Commission (the anti-trust body created by the Competition Law) has only recently come into effect and has yet to pronounce on any case. Meanwhile, the press has presented a new consumer protection law as a means of legitimizing government price fixing, although the Ministry of Commerce and Industry (SIC) says that no such provision is included in the law. End summary.

¶2. (U) Over the past twelve months, retail prices of certain basic goods -- such as corn flour, sugar, rice, meat (beef, pork and poultry) and eggs -- in Honduras have tended to increase, generally between 15 to 20 percent. Aside from subsistence farmers, the producers or distributors of these products tend to be monopolies or oligopolies that can and do exercise pricing power and even collusive pricing. (Comment. Of those industries, corn flour, meat and eggs do have some justification for increased prices due to the rising international price of corn. Honduras only produces 60 percent of the corn necessary to meet domestic demand. The rest is imported, principally from the U.S. End comment.)

¶3. (U) SIC sees the current public protests over rising prices as political rather than economic. Director of the Production and Consumption office of SIC, Reniery Rivas, told Econoff that SIC does not consider Honduras to be a free market economy &de facto.<sup>8</sup> The free market only exists on paper. To meet market access requirements for CAFTA, the GOH had to pass anti-trust legislation that provided for a &competition commission,<sup>8</sup> regulating the various monopolies and oligopolies operating in Honduras. After significant U.S. and other donor countries pressured for four months, the GOH formed the commission, but due to local business interests, pressure, it has not yet fully staffed or funded the commission. Domestic monopolies and oligopolies still act with impunity, colluding on prices and supply (though foreign monopolies, such as in the recent case of cement, are sometimes singled out for public attacks).

¶4. (U) SIC has concluded that wholesale prices have not generally increased across all goods. Their latest wholesale price report for basic household goods shows increases of one

to two Lempiras (under 10 percent) in corn flour and sugar, but no other significant increases. Of other products, cement was to increase by seven Lempiras, but the GOH intervened, obtaining from the cement producers a graduated price adjustment over a period of six months. Central bank figures suggest that inflation across the economy is approximately 5.8 percent, though one GOH official admits that level has been artificially suppressed by an estimated 1.8 percent by GOH price freezes on fuels, in place since April 2006.

15. (U) SIC also has administrative control over BANASUPRO, a government-owned supermarket, and appears to use those prices as a reference price for retail sales. When BANASUPRO entered the small southern town of Perspire, its competition had to reduce their price of eggs from 2.20 Lempiras per egg to 1.70-1.80 Lempiras per egg, since BANASUPRO charged 1.60 lempiras. (Comment. Although SIC claims that BANASUPRO is self-sustaining, it most likely does not obtain profits at a level that would sustain and grow a private business. The wholesale price for eggs at the time of entry was 1.50 Lempiras per egg. Thus, while the entry of competition into this market clearly reduced windfall profits by egg suppliers there -- a net positive, it is not clear that the L 1.60 price is a truly market based price, as it could contain hidden government subsidies for the supermarket. End comment.)

16. (SBU) If prices have not really increased, then why all the drama? SIC sees the problem as two-fold. First, the monopolies and oligopolies feed impending price hike information to the Honduran press, which makes increased prices a fait accompli for the small store owners and the general public. The producers then raise prices less than they initially announced, sardonically claiming that they found savings for the public. Meanwhile, the store owners and

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the middlemen speculate on the price, causing prices to trend upwards more than they necessarily should have before the official announcement from the producers. Rivas said that speculation has been worse in the past three months because his office had been providing a copy of their price reports directly to COHEP, which he alleges has been actively working with distributors and retailers to speculate on future prices. He continued that every time COHEP president Mario Canahuati speaks publicly about possible rising commodity prices, prices inevitably go up. (Comment. This is not necessarily faulty logic. The Honduran economy is small enough that one individual could affect prices if he is seen as a reputable source of information. As one of the key members of the business community, Canahuati's word can represent the general sentiment of the producers. Nevertheless, Post has no corroborating information indicating that Canahuati is personally involved in the alleged speculation. End comment.)

17. (SBU) Second, the Union Democratica (UD) political party and fringe-leftist social group Bloque Popular (BP) work with the Committee for the Defense of the Honduran Consumer (CODECO ) essentially an Honduran activist version of Consumer Reports) to create public unrest and often protests. This then resonates in the national newspapers, creating a sense of political necessity to act. SIC told Econoff that CODECO receives most of its funding from UD and BP, effectively giving them control over the organization. SIC plans to prohibit either businesses or political parties from funding CODECO through the new consumer protection law.

18. (C) The current price hike conflict has largely been resolved through government-producer negotiations mediated by COHEP president Mario Canahuati. The gentlemen's agreement provides for prices to remain stable through the winter holiday season and afterwards gradually increase. Rivas told Econoff that he does not believe Canahuati to be an honest broker and is simply perpetuating the status quo. Specifically, he said that Canahuati has strong ties to

Gilberto Goldstein, the owner of the largest of four corn flour mills in Honduras, among other oligopolists.

¶9. (U) Rivas admitted that the way these sorts of problems should be resolved is through the competition commission, however, pressure from the monopolists and oligopolists has hamstrung the commission's budget. Caving in to vocal but fundamentally unfounded social pressure, the government felt it could only resort to fixing prices by negotiating with the business community. Rivas confirmed Honduran press reports quoting President of the National Assembly Roberto Micheletti assessing that social pressure have risen so high that the National Assembly is attempting to modify the currently debated new consumer protection law to legitimize price fixing with the business community. (Comment: In Post's view, this would be a serious setback for market liberalization. End comment.)

¶10. (C) Comment. That the GOH has yet again cornered itself into negotiating with the monopolies and oligopolies shows that the legislative requirements of CAFTA on their own will not affect a change on the ground in Honduras. The current price fixing ) and possible legislative legitimization of price fixing - is yet another symptom of the endemic corruption and unwillingness to liberalize that has characterized the Honduran political system and economy for the past century. The GOH is not going to bite the hand that feeds it. This again underscores why the competition commission must be successful in becoming the only arbiter of anti-trust, market access, and price disputes. Post continues to work with the G-16 donor community to pressure the GOH to fund and adequately staff the competition commission. End comment.  
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